

FINANCIAL AUDIT
OF THE

MICHIGAN STATE FAIR AND EXPOSITION CENTER

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

October 1, 1995 through September 30, 1996

EXECUTIVE DIGEST

MICHIGAN STATE FAIR AND EXPOSITION CENTER

INTRODUCTION

This report contains the results of our financial audit of the Michigan State Fair and Exposition Center (MSFEC), Department of Consumer and Industry Services (DCIS), for the period October 1, 1995 through September 30, 1996.

AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND

Act 361, P.A. 1978 (Sections 285.161 - 285.176 of the *Michigan Compiled Laws*), created MSFEC within the Department of Natural Resources. Executive Order 1993-25 transferred MSFEC to the Department of Commerce effective February 1994. The Department of Commerce was combined with the Department of Labor to form DCIS effective May 15, 1996. DCIS has the responsibility for conducting an annual State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 200 acres located in Detroit. MSFEC operations are accounted for in the Michigan State Fair

Revolving Fund (MSFRF). MSFEC also leases the fairgrounds and buildings for various events throughout the year.

The 1996 Fair was held August 20 through September 2. The Fair's reported paid attendance was 332,660. During the Fair, MSFEC had 17 full-time, 1 intermittent, and 38 temporary employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of MSFEC's internal control structure*.

Conclusion: Our assessment of MSFEC's internal control structure did not disclose any material weaknesses*. However, we noted a reportable condition* related to the lack of supporting documentation for non-Fair events revenue (Finding 1).

Audit Objective: To assess MSFEC's compliance with applicable laws and regulations that could have a material effect on MSFRF's schedule of revenues, expenses, and operating transfers.

Conclusion: Our assessment of compliance with applicable laws and regulations did not disclose any instances of noncompliance that could have a material effect on MSFRF's schedule of revenues, expenses, and operating transfers. We do not have any findings to report for this objective.

Audit Objective: To audit MSFRF's schedule of revenues, expenses, and operating transfers for the fiscal year ended September 30, 1996.

* See glossary on page 24 for definition.

Conclusion: We expressed an unqualified opinion on MSFRF's schedule of revenues, expenses, and operating transfers. We do not have any findings to report for this objective.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Michigan State Fair and Exposition Center for the period October 1, 1995 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

AGENCY RESPONSES

Our report contains one finding and two recommendations. MSFEC indicated that it agreed with both recommendations and has either complied with or has taken steps to comply with the recommendations.

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Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

This is our report on the financial audit of the Michigan State Fair and Exposition Center, Department of Consumer and Industry Services, for the period October 1, 1995 through September 30, 1996.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses; comments, finding, recommendations, and agency preliminary response; and independent auditor's report on the internal control structure, on compliance with laws and regulations, and on the schedule of revenues, expenses, and operating transfers. This report also contains the Michigan State Fair Revolving Fund schedule of revenues, expenses, and operating transfers; notes to financial schedule; and a glossary of acronyms and terms.

Our comments, finding, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

Act 361, P.A. 1978 (Sections 285.161-285.176 of the *Michigan Compiled Laws*), created the Michigan State Fair and Exposition Center (MSFEC) within the Department of Natural Resources. Executive Order 1993-25 transferred MSFEC to the Department of Commerce effective February 1994. The Department of Commerce was combined with the Department of Labor to form the Department of Consumer and Industry Services (DCIS) effective May 15, 1996. DCIS is responsible for conducting an annual State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 200 acres located in Detroit. MSFEC operations are accounted for in the Michigan State Fair Revolving Fund. MSFEC also leases the fairgrounds and buildings for various events throughout the year.

Effective October 1, 1996, MSFEC activities will be accounted for in the General Fund. An accounting change was recorded to close out the remaining long-term assets, liabilities, and an equity transfer to the general fixed asset and General Fund long-term obligations groups.

The 1996 Fair was held August 20 through September 2. The Fair's reported paid attendance was 332,660. During the Fair, MSFEC had 17 full-time, 1 intermittent, and 38 temporary employees.

Audit Objectives, Audit Scope, and Agency Responses

Audit Objectives

Our financial audit of the Michigan State Fair and Exposition Center (MSFEC), Department of Consumer and Industry Services, had the following objectives:

1. To assess the adequacy of MSFEC's internal control structure.
2. To assess MSFEC's compliance with applicable laws and regulations that could have a material effect on Michigan State Fair Revolving Fund's (MSFRF's) schedule of revenues, expenses, and operating transfers.
3. To audit MSFRF's schedule of revenues, expenses, and operating transfers for the fiscal year ended September 30, 1996.

Audit Scope

Our audit scope was to examine the financial and other records of the Michigan State Fair and Exposition Center for the period October 1, 1995 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Agency Responses

Our report contains one finding and two recommendations. MSFEC indicated that it agreed with both recommendations and has either complied with or has taken steps to comply with the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Consumer and Industry Services to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDING, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSE

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Michigan State Fair and Exposition Center's (MSFEC's) internal control structure.

Conclusion: Our assessment of MSFEC's internal control structure did not disclose any material weaknesses. However, we noted a reportable condition related to the lack of supporting documentation for non-Fair events revenue.

The Michigan Administrative Information Network (MAIN) is the Statewide financial management system implemented in fiscal year 1994-95. Individual State agencies are not responsible for the design of the Statewide policies and controls of MAIN. However, because MAIN is a Statewide system, which all State agencies are required to use, the internal control structure of each agency, including MSFEC, is affected to varying degrees by MAIN.

Because MSFEC's internal control structure is affected by this Statewide system, professional auditing standards required our assessment of internal controls in MSFEC to include elements reviewed in our financial related audit of MAIN for the period October 1, 1994 through April 30, 1996. That audit reported 29 reportable conditions, including 3 material weaknesses, which are more fully explained in our separately issued report dated August 31, 1996.

FINDING

1. Supporting Documentation

Records retained by MSFEC were not sufficient to document the propriety of various financial transactions:

- a. MSFEC did not reconcile non-Fair events revenue as reported on the subsidiary ledger with the financial schedule. Also, MSFEC did not always record revenues in the appropriate revenue classification.

MSFEC contracts with various organizations to hold non-Fair events at the fairgrounds. The organizations prepay rent and utility charges. MSFEC determines the actual charges due after the event and either bills the organizations for the balances due or issues refunds. Total revenues for non-Fair events exceeded \$1,476,000 for fiscal year 1995-96.

Revenues reported on the Michigan State Fair Revolving Fund financial schedule exceeded the revenues reported on the subsidiary ledger of non-Fair events by more than \$36,000. MSFEC stated that it had not updated the subsidiary ledger to include all revenues related to the non-Fair events. Reconciling the subsidiary ledger with the financial schedule helps ensure that all revenues are properly reported.

Also, in 3 of the 6 non-Fair events we reviewed, revenues were not accurately posted to the appropriate revenue classifications. Accurate posting of revenues enables MSFEC to verify and monitor amounts collected.

- b. MSFEC could not locate revenue documentation for \$18,296 for 2 of 6 non-Fair events we selected for review. As a result, we could not verify the propriety of revenues reported.
- c. All pertinent information relevant to revenue transactions was not entered on MAIN. We noted that financial information necessary for identifying vendors, deposits, and remittances was not entered on the MAIN transaction entry screen. Incomplete transaction data makes it difficult and time consuming to identify specific transactions in the accounting records and does not provide a clear audit trail. At the end of our audit, MSFEC stated that it had begun to enter information into MAIN which will allow for adequate tracking of revenue transactions.

Maintenance of pertinent and accurate documentation relevant to the financial activities of the entity is a prerequisite for developing and reporting data accurately.

RECOMMENDATIONS

We recommend that MSFEC effectively monitor its non-Fair contracts.

We also recommend that MSFEC establish procedures which require retention of supporting documentation for its financial transactions.

AGENCY PRELIMINARY RESPONSE

MSFEC agrees with the first recommendation and will comply. MSFEC has recently updated its procedures to include prompt posting of all revenues to the subsidiary ledger. In addition, MSFEC management will have discussions with its staff on how to determine the proper revenue classifications to post.

MSFEC agrees with the second recommendation and has recently documented and revised its procedure manuals.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess MSFEC's compliance with applicable laws and regulations that could have a material effect on the Michigan State Fair Revolving Fund's (MSFRF's) schedule of revenues, expenses, and operating transfers.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on MSFRF's schedule of revenues, expenses, and operating transfers. We do not have any findings to report for this objective.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit MSFRF's schedule of revenues, expenses, and operating transfers for the fiscal year ended September 30, 1996.

Conclusion: We expressed an unqualified opinion on MSFRF's schedule of revenues, expenses, and operating transfers. We do not have any findings to report for this objective.

Independent Auditor's Report on the
Internal Control Structure

May 22, 1997

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the schedule of revenues, expenses, and operating transfers of the Michigan State Fair Revolving Fund, Department of Consumer and Industry Services, for the fiscal year ended September 30, 1996 and have issued our report thereon dated May 22, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of revenues, expenses, and operating transfers is free of material misstatement.

The management of the Michigan State Fair and Exposition Center and the management of the Department of Consumer and Industry Services are responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial schedule in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of

changes in conditions or that effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial schedule for the fiscal year ended September 30, 1996, we obtained an understanding of the Michigan State Fair Revolving Fund's internal control structure and internal control elements reviewed as part of our financial related audit of the Michigan Administrative Information Network. The Michigan Administrative Information Network is the Statewide financial management system implemented in fiscal year 1994-95 and, as such, affects the Michigan State Fair Revolving Fund's internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Michigan State Fair Revolving Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. The reportable conditions are more fully described in Finding 1.

Also, our financial related audit of the Michigan Administrative Information Network for the period October 1, 1994 through April 30, 1996 noted 29 reportable conditions on the internal control structure which are more fully explained in our separately issued report on the Michigan Administrative Information Network dated August 31, 1996. Although the Michigan State Fair Revolving Fund, Department of Consumer and Industry Services, is not responsible for the design of the Statewide policies and controls of the Michigan Administrative Information Network, which all State agencies are required to use, these reportable conditions affected the Michigan State Fair Revolving Fund's internal control structure.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the Michigan State Fair Revolving Fund's reportable conditions described above is a material weakness. Three of the 29 reportable conditions identified in our financial related audit of the Michigan Administrative Information Network were material weaknesses. These conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the financial schedule for the fiscal year ended September 30, 1996.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
Compliance With Laws and Regulations

May 22, 1997

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the schedule of revenues, expenses, and operating transfers of the Michigan State Fair Revolving Fund, Department of Consumer and Industry Services, for the fiscal year ended September 30, 1996 and have issued our report thereon dated May 22, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Michigan State Fair Revolving Fund is the responsibility of the Michigan State Fair and Exposition Center and the Department of Consumer and Industry Services management. As part of obtaining reasonable assurance about whether the schedule is free of material misstatement, we performed tests of the Michigan State Fair Revolving Fund's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedule was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instance of noncompliance that are required to be reported under *Governmental Auditing Standards*.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on the
Schedule of Revenues, Expenses, and Operating Transfers

May 22, 1997

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the accompanying schedule of revenues, expenses, and operating transfers of the Michigan State Fair Revolving Fund, Department of Consumer and Industry Services, for the fiscal year ended September 30, 1996. This financial schedule is the responsibility of the Michigan State Fair Revolving Fund management and the Department of Consumer and Industry Services management. Our responsibility is to express an opinion on the financial schedule based on our audit. The governmental operations of the Michigan State Fair Revolving Fund are accounted for principally in the enterprise fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying schedule of revenues, expenses, and operating transfers presents only the Michigan State Fair Revolving Fund, presented on the accrual basis of accounting. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the Michigan State Fair Revolving Fund or the State's enterprise fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the results of operations of the Michigan State Fair Revolving Fund for the fiscal year ended September 30, 1996 on the basis of accounting described in Note 1b.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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MICHIGAN STATE FAIR REVOLVING FUND
Department of Consumer and Industry Services
Schedule of Revenues, Expenses, and Operating Transfers
Fiscal Year Ended September 30, 1996

OPERATING REVENUES

Fair Revenue:	
Gate admissions	\$1,945,510
Fair parking	332,964
Midway percentage - rides	740,654
Midway contract - games	149,500
Concessions and exhibits	386,467
Stickers and passes	88,931
Entry and stall fees	76,126
Sponsorship	639,554
Miscellaneous	104,122
Total Fair Revenue	<u>\$4,463,828</u>

Non-Fair Revenue:	
Charges for labor and utilities	\$ 219,893
Non-Fair rentals - buildings and grounds	483,343
Non-Fair commission on concessions	77,464
Non-Fair gate receipts	43,783
Non-Fair parking and camping	391,647
Storage	1,800
Miscellaneous	258,947
Total Non-Fair Revenue	<u>\$1,476,877</u>
Total Operating Revenues	<u>\$5,940,705</u>

OPERATING EXPENSES

Administration	\$1,166,738
Building and grounds maintenance	2,345,083
Security	427,914
First aid	20,531
Advertising	304,337
Marketing	230,841
Agriculture and livestock division	578,117
Community arts	138,581
Entertainment	794,320
Depreciation	367,975
Miscellaneous	67,089
Total Operating Expenses	<u>\$6,441,526</u>
Operating Income (Loss)	<u>\$ (500,821)</u>

This schedule continued on next page.

MICHIGAN STATE FAIR REVOLVING FUND
Department of Consumer and Industry Services
Schedule of Revenues, Expenses, and Operating Transfers
Fiscal Year Ended September 30, 1996
Continued

NONOPERATING REVENUES (EXPENSES)

Interest expense	<u>\$ (722,384)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (722,384)</u>
Income (Loss) Before Operating Transfers	<u>\$(1,223,205)</u>

OPERATING TRANSFERS

Operating Transfers Out:

To Department of Civil Service	\$ (12,400)
To Department of Treasury	(2,900)
To Office of the Auditor General	(23,900)
To Department of Management and Budget	(2,600)
To Michigan Administrative Information Network	<u>(26,100)</u>
Total Operating Transfers Out	<u>\$ (67,900)</u>
Net Income (Loss)	<u>\$(1,291,105)</u>

Notes to Financial Schedule

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying schedule of revenues, expenses, and operating transfers is for the Michigan State Fair Revolving Fund, Department of Consumer and Industry Services, for the fiscal year ended September 30, 1996. This Fund is a part of the State of Michigan's reporting entity and was reported as an enterprise fund in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)* as of September 30, 1996. An accounting change was made and entries were recorded to close out \$8,574,510 in long-term assets, \$2,267,568 in liabilities, and an equity transfer of \$13,704,316 to the general fixed asset and General Fund long-term obligations groups at September 30, 1996. Effective October 1, 1996, the Michigan State Fair Revolving Fund will be accounted for in the General Fund. The Department of Commerce was reorganized into the Department of Consumer and Industry Services by Executive Order 1996-2, which was effective May 15, 1996.

The footnotes accompanying the schedule of revenues, expenses, and operating transfers relate directly to the Michigan State Fair Revolving Fund. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Post Employment Benefits, Compensated Absences, and Risk Management.

b. Basis of Accounting and Presentation

The financial schedule contained in this report is prepared on the accrual basis of accounting. The accrual basis of accounting, which emphasizes the measurement of total financial position and results of operations, is explained in more detail in the *SOMCAFR*.

The accompanying schedule of revenues, expenses, and operating transfers presents only the Michigan State Fair Revolving Fund. Accordingly, it is not intended to present fairly the results of operations of the State of Michigan or its enterprise funds.

Note 2 Retirement Contributions

Eligible employees of the Fund are members of the State Employees Retirement System. The Fund contributed approximately \$179,000 to the retirement system for fiscal year 1995-96.

Note 3 Self-Insured Fund

The Michigan State Fair Revolving Fund participates in the State's Risk Management Fund, an internal service fund administered by the Department of Management and Budget to self-insure for liability risk. The Michigan State Fair Revolving Fund paid \$52,030 to the Risk Management Fund for fiscal year 1995-96. Payments for insurance claims totaled \$2,540 for fiscal year 1995-96.

Glossary of Acronyms and Terms

DCIS	Department of Consumer and Industry Services.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
MAIN	Michigan Administrative Information Network.
material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, of a magnitude that would be material in relation to the financial schedule, would not be prevented or detected.
MSFEC	Michigan State Fair and Exposition Center.
MSFRF	Michigan State Fair Revolving Fund.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>